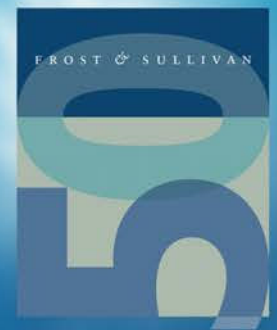


# Innovation Portfolio Management: Balancing Value and Risk



# The Growth Team Membership™ (GTM)

GTM is a subscription program that supports executives within the functions that report to the CEO

## CEO's Growth Team™

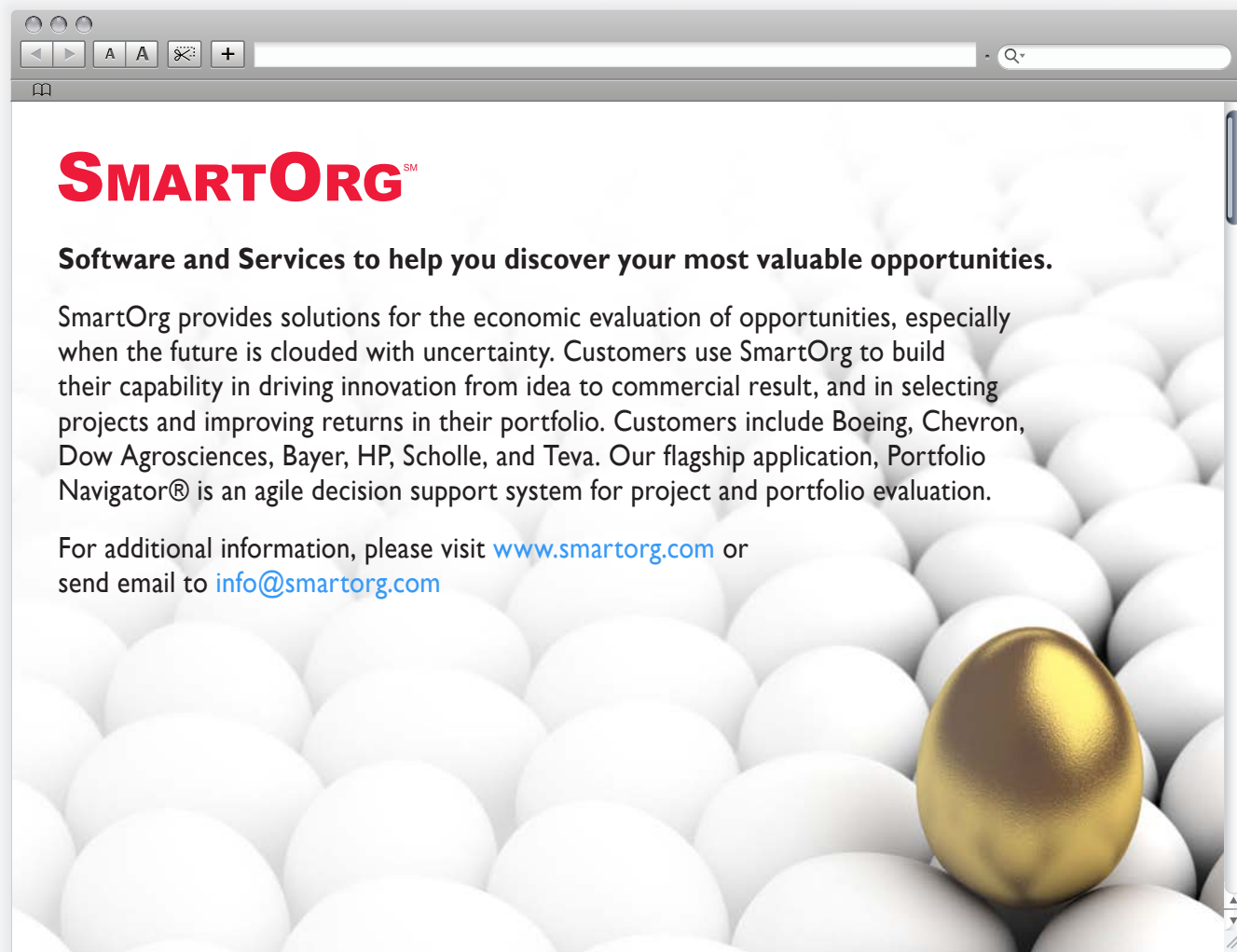


GTM provides best practices, events, and services that enable executives to address challenges within their companies

## GTM: Creating Client Value

GTM's case-based best practices help executives:

- 1 Speed the design and implementation of initiatives by not reinventing the wheel
- 2 Save money and reduce risk by avoiding mistakes made by other companies
- 3 Accelerate problem-solving with a cross-industry perspective
- 4 Improve their functions' and companies' performance and productivity



## Profiled Best Practice Company

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**Firm:** Beta Inc.\*

**Industry:** Information and Communication Technology

**Headquarters:** United States

**Geographic Footprint:** Global

**Ownership:** Public

**Revenue (2011):** \$3–5 billion USD

\* Beta Inc. is a pseudonym. All data in this guidebook are illustrative.

### Problem:

Beta seeks to generate better returns from its product portfolio (both existing products and those still in development). However, the company struggles to evaluate and compare the value and risk of all projects, which hampers funding and decision-making.

\* Risk is defined as the range of uncertainty around the commercial value of the project.

# Beta’s portfolio management process evaluates projects individually and as part of the innovation portfolio

## Innovation Portfolio Management Process and System

**Process Owner**

**ROLE**

 Facilitates and maintains the portfolio management process and system

**Executive Team**

**ROLE**

 Sets the company’s innovation strategy and manages the innovation portfolio

**Project Teams**

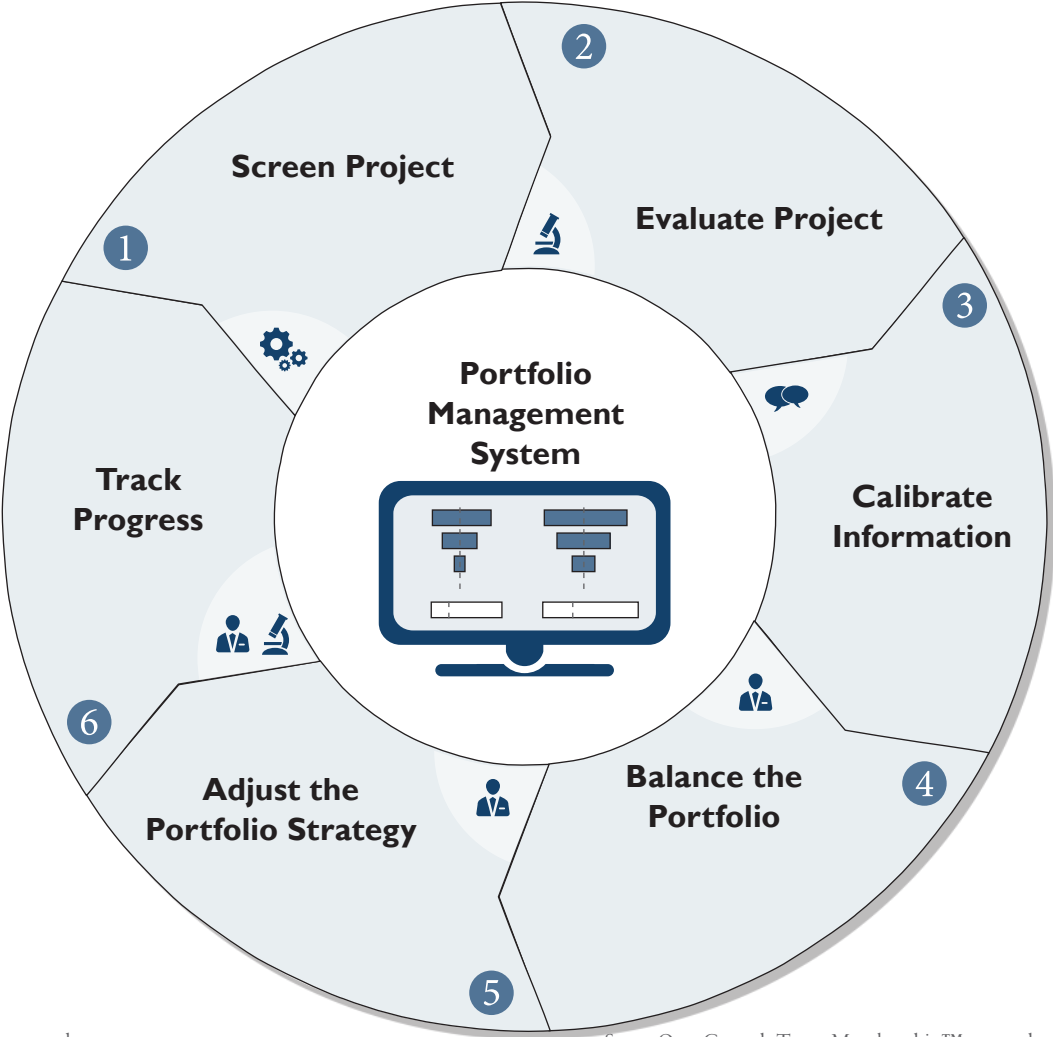
**ROLE**

 Develops the project and tracks its metrics in the Portfolio Management System

**Calibration Committee**

**ROLE**

 Conducts a peer review of all the projects in the Portfolio Management System before prioritization and funding decisions are made

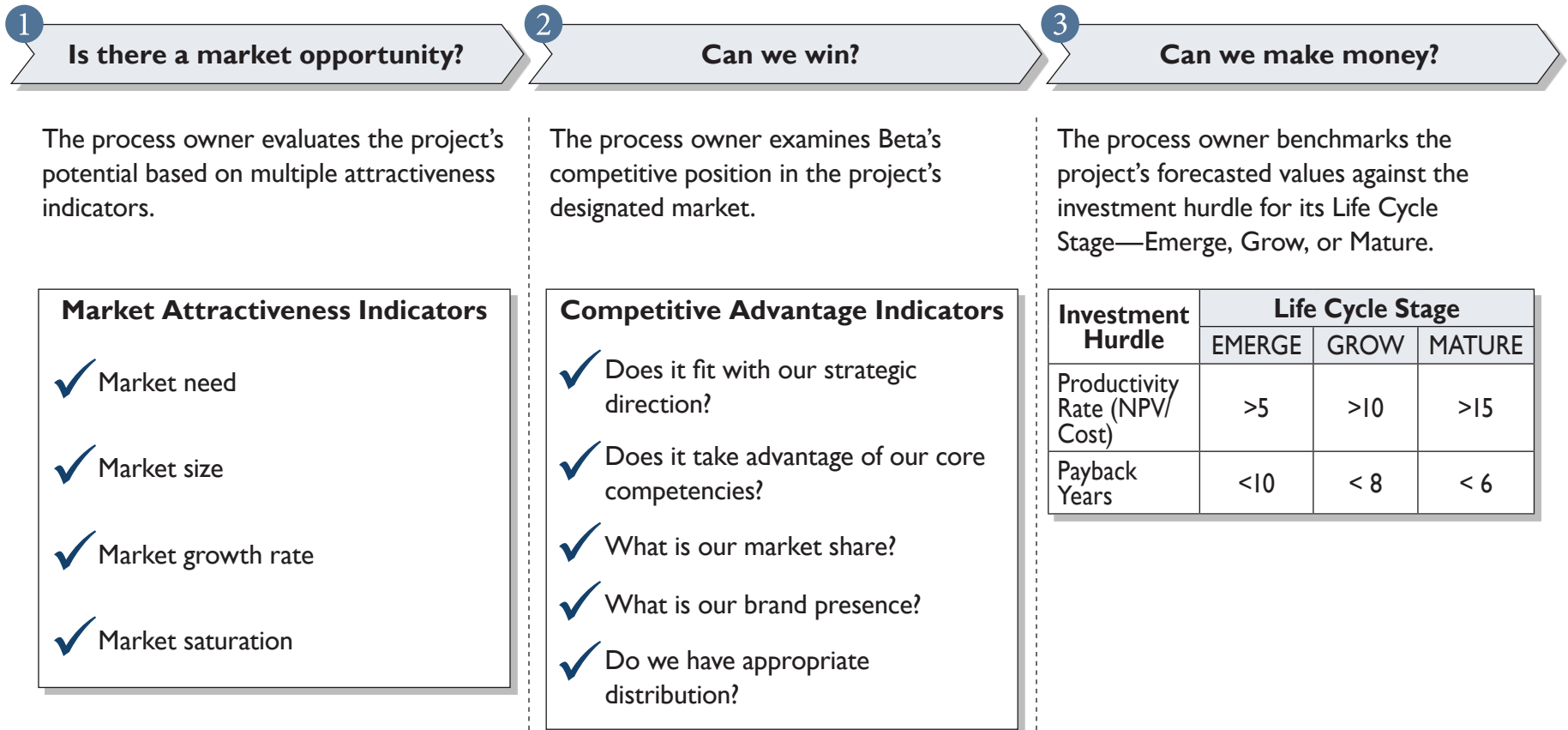


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# Limit entry into the portfolio management process

## 1 Screen Project

### Portfolio Screening Criteria



# Establish proof points to assess the chance of success at each product development phase

## 2 Evaluate Project

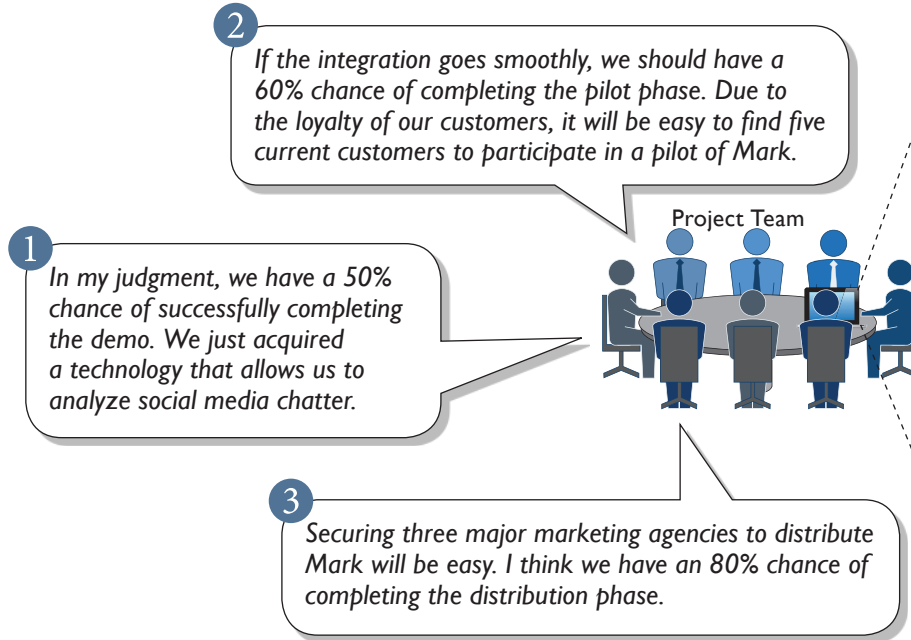
### Proof Point Development

Case in Point: Mark

#### PROOF POINTS

Proof Points allow the Project Team to determine project viability and anticipate difficult development phases. The Project Team uses the following question as a prompt to identify proof points:

What would you want to know before mortgaging your house to fund the product?



Product Development Phase	Proof Point	Duration	Cost (USD)	Chance of Success
Demo	Increase the predictive performance of three major marketing campaigns by 50%	One Year	\$1 million	50%
Pilot	Prove product marketability through a pilot with five customers	Three months	\$2 million	60%
Distribution	Sign up three major marketing agencies to distribute the product	One Year	\$5 million	80%
Overall Chance of Success				24%



# Estimate the project's commercial value using a concise, fixed set of indicators

## 2 Evaluate Project

### Forecasting Commercial Value Workshop

#### Seven Indicators of Commercial Value

1. Total available market
2. Market penetration
3. Potential market share
4. Market duration
5. Unit price
6. Fixed annual cost
7. Sales and marketing costs

#### Discuss

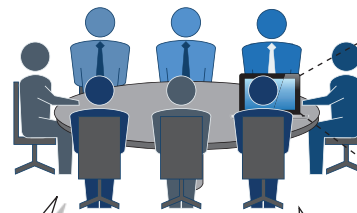
The Project Team discusses the available evidence on the project.

#### Estimate

The Project Team estimates high, base, and low values for each of the seven indicators.

#### Document

The Project Team documents the rationale for the range of uncertainty.



Project Team

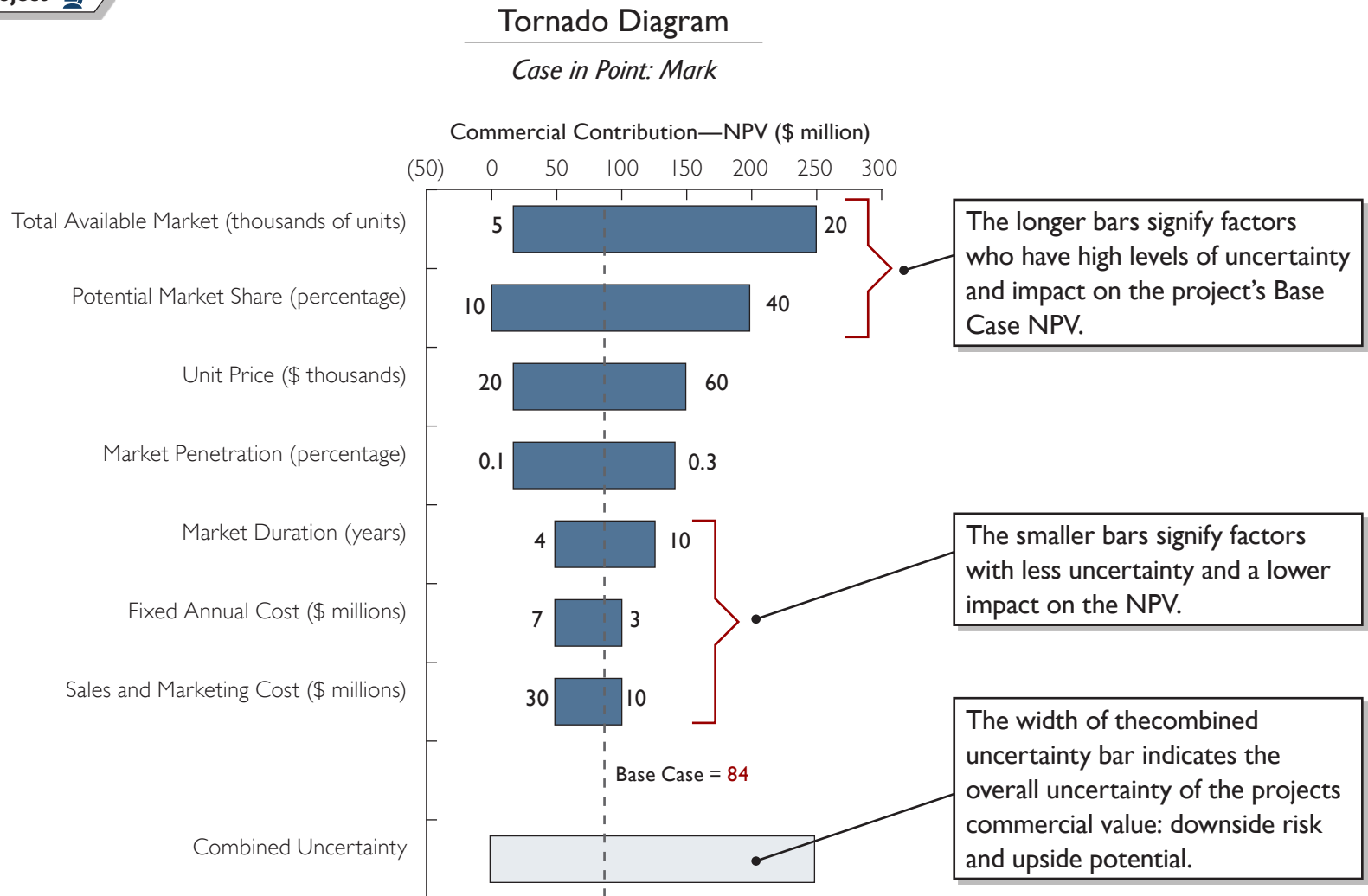
Indicator	Range of Uncertainty		
	High	Base	Low
Potential market share	40%	25%	10%

*Our market share could be as low as 10% if competitors get to market before we do.*

*However, since there is little competition in this space, our market share could be as high as 40%. We seem most likely to garner approximately 25%.*

# Pinpoint the indicators with the greatest impact on a project's net present value (NPV)

## 2 Evaluate Project

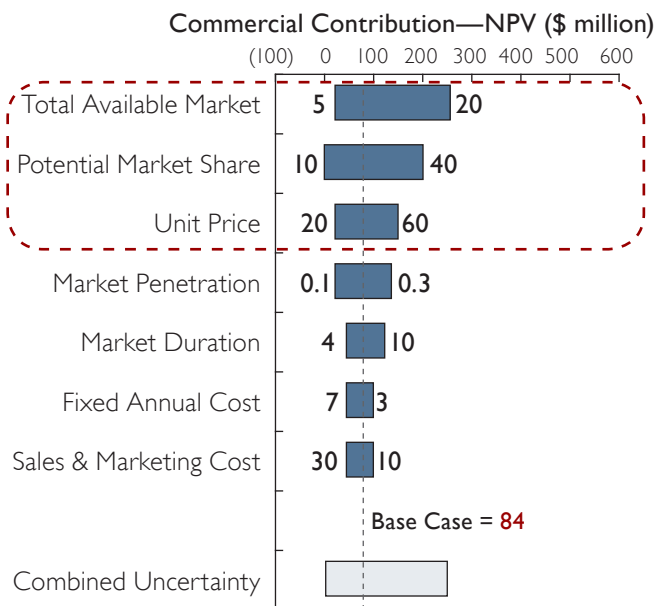


# Improve project value and reduce risk by addressing the areas of greatest uncertainty

## 2 Evaluate Project

### Initial Evaluation

The total available market, potential market share, and unit price have the highest ranges of uncertainty and are the greatest sources of risk.





## Project Refinement


Case in Point: Mark

### Clarification

To refine its assumptions, the Project Team:

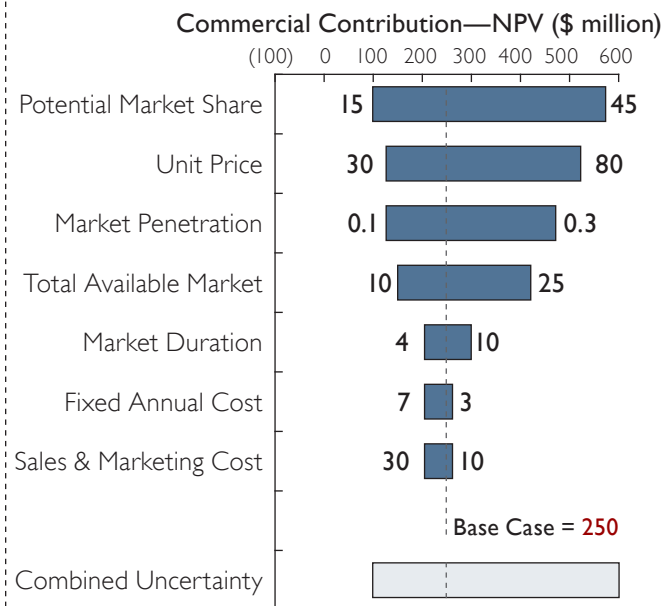
 Organizes a conference on social media data analysis

 Surveys 1,000 social media professionals on their data analysis needs and product use

 Conducts in-depth interviews with 20% of the survey respondents

### Adjusted Evaluation

By adjusting the total available market, unit price, and potential market share values, the downside risk is reduced and the Base Case NPV of the project is increased.



# Use peer reviews to ensure project team assumptions are credible and comparable

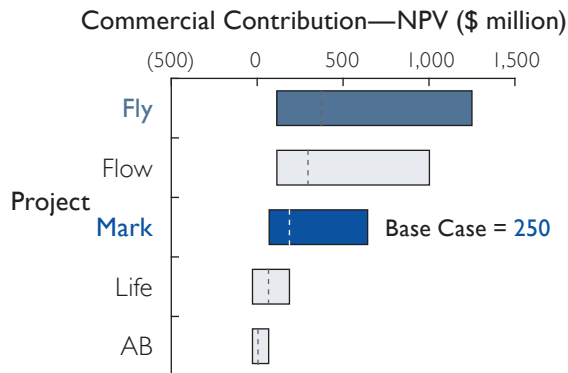
3

Calibrate Information

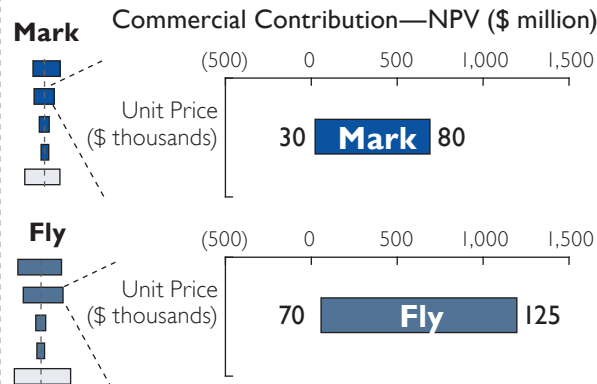
## Calibration Committee Review

Case in Point: Mark versus Fly

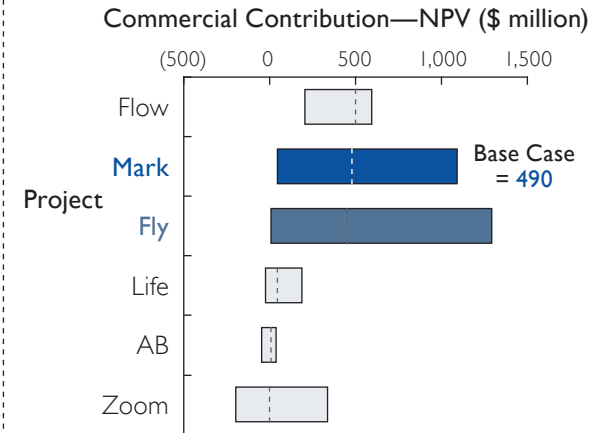
### Compare Mark to the Portfolio at Large



### Compare Mark and Fly's Indicators



### Refine Mark's Assumptions and Expectations



Fly and Mark are targeting the same industry, but their assumptions about the unit price vary widely.

Calibration Committee

Why does Fly have a better upside potential than Mark?

According to the Portfolio Management System, the Fly Project Team researched pricing models for this industry. Therefore, we trust the Fly team's assumptions about the unit price, and we should use its pricing model for Mark. We should use this pricing model for future projects in this industry as well.

# Prioritize all projects for funding in the portfolio based on their comparative value, cost, and uncertainty

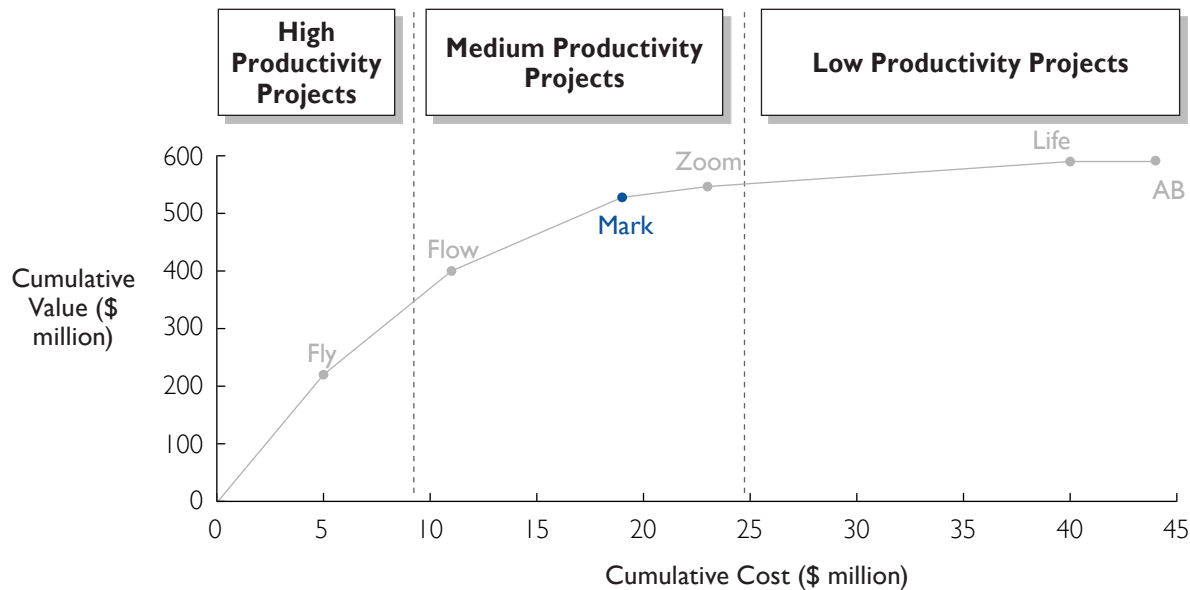
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## Balance the Portfolio



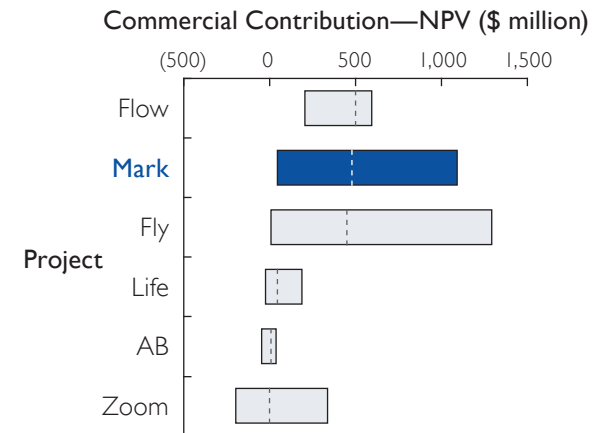
### CFO Chart: Measures Investment Productivity

The CFO Chart permits apple-to-apple comparison by classifying each project as high, medium, or low investment productivity and plotting them in descending order of productivity.



### Commercial Contribution Chart: Compares Combined Uncertainty

The Commercial Contribution Chart ranks projects' combined uncertainty bars, by their Base Case NPV, to underline risk and potential value.

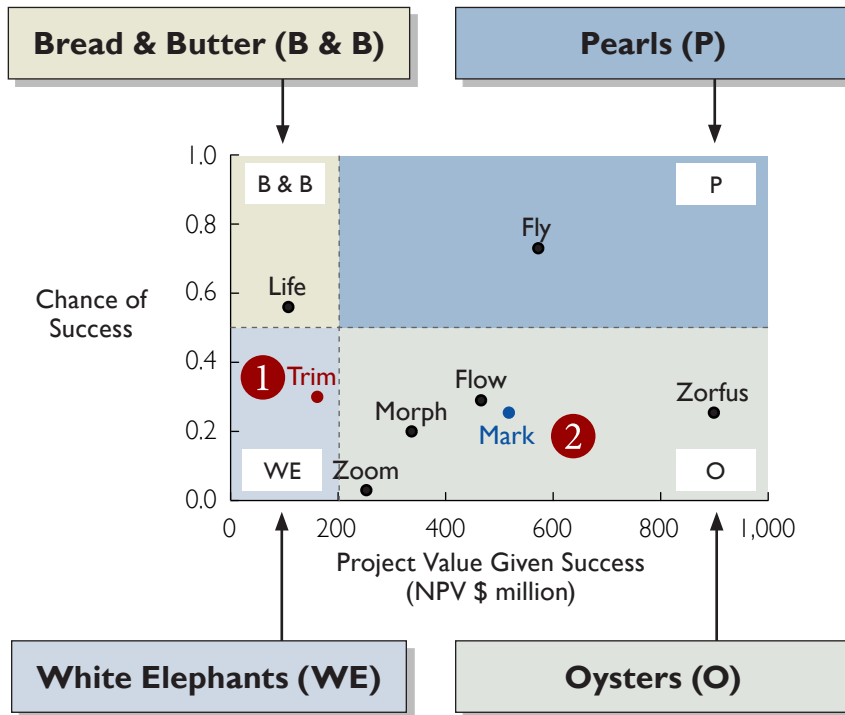


# Assess the portfolio's ability to meet strategic and business line goals

## 4 Balance the Portfolio

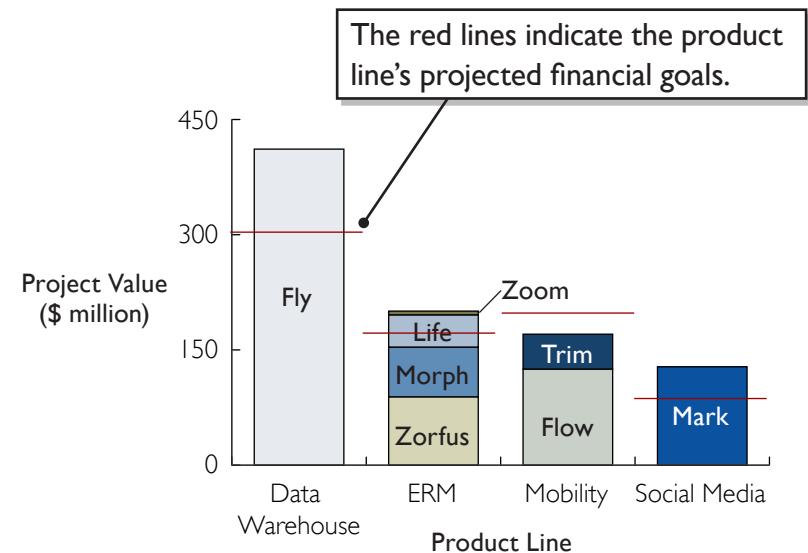
### Managing Portfolio Mix

The Executive Team assesses the portfolio mix using the following classification scheme: Bread & Butter, Oysters, Pearls, and White Elephants.



### Project Value by Product Line

The Executive Team conducts a side-by-side comparison of the projects in each product line to assess potential value, product mix, and gaps.



# Adjust financial goals and resource constraints to optimize the portfolio

## 5 Adjust the Portfolio Strategy

### Portfolio Strategy and Long-Term Financial Goals

#### 1 Will we meet our revenue goal?

The Executive Team assesses the portfolio's ability to meet the company's financial goals.

Our goal is to generate \$500 million in revenue from innovation by 2015. However, the expected value of our portfolio's revenue for 2015 is only \$250 million. We need to identify ways to improve the portfolio's value.



#### Expected Value (\$ million)

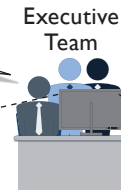
	2012	2013	2014	2015
Revenue	0	6	54	250
Cost	0	5	47	202
Profit	0	1	7	48

#### 2 What can we do to meet our goals?

The Executive Team can use several options to improve the portfolio's value:

- ✓ Adjust the portfolio strategy
- ✓ Improve risk-adjusted value
  - Improve the Chance of Success for the projects in the portfolio.

If we hire an external marketing team to assist with Fly, Mark, and Life, we will have the resources we need to support these projects, ensure they meet their proof points, and achieve our goals.



#### Cumulative Project Resource Requirements

		Portfolio Projects			
		Zorfus	Fly	Mark	Life
Productivity		94.63	71.18	15.25	2.3
Cumulative Resources	R&D FTE	3.6	4.8	8.4	12
	Marketing FTE	2.7	4	6.7	9.4
	Marketing Cost	\$5.9	\$10.9	\$16.8	\$22.7

Red values indicate resource restraints.

# Revisit assumptions and refine projects based on their commercial value and impact on the portfolio mix

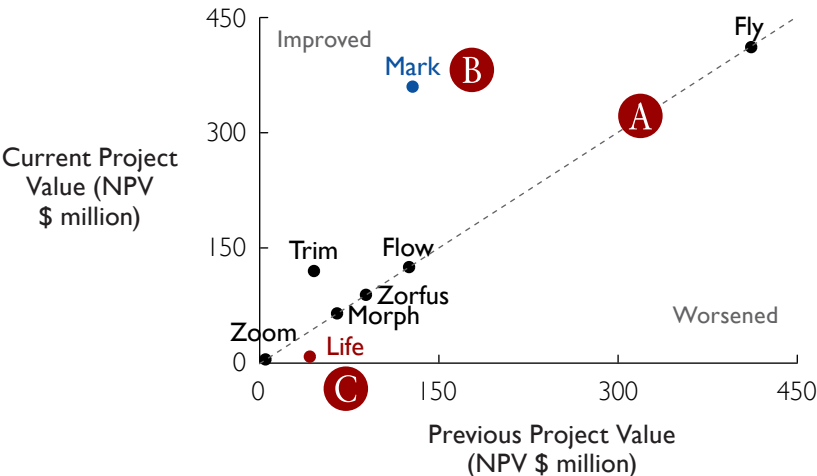
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Track Progress

## Annual Value-Tracking Assessment

Case in Point: Mark

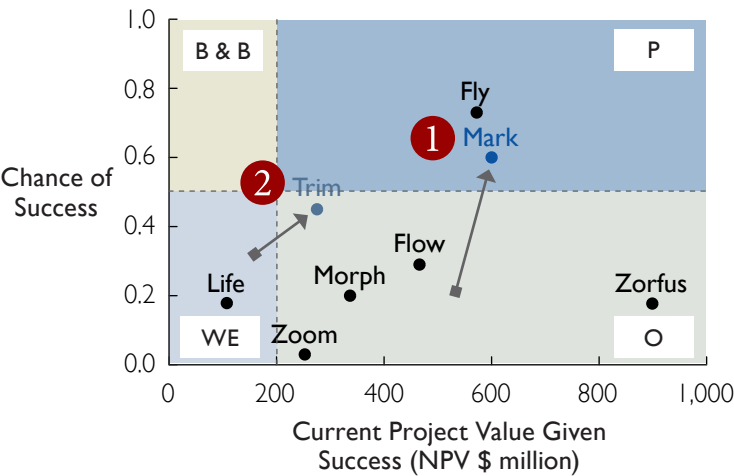
The Executive Team conducts annual in-depth project reviews for projects with a +/- 10% difference in value.



## Track Portfolio Mix

Case in Point: Mark

The Executive Team assesses how each project's role in the portfolio shifts and adjusts the portfolio strategy accordingly.



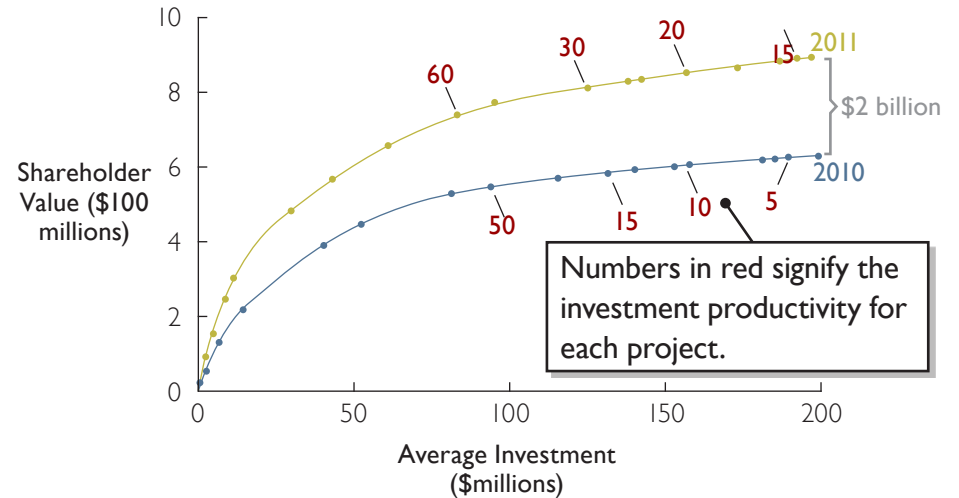


# Business Results

## Portfolio Performance Metrics

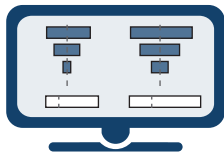
	2010	2011	Improvement
Ideas screened	20	35	60%
Projects approved for development	10	15	50%
Projects launched	3	6	100%
Projects terminated	4	8	100%

## Portfolio Return



## Project Management Improvement

### Portfolio Management System



The portfolio management process has helped Beta:

- Reduce the amount of time it takes a project to move through the innovation process
- Improved efficiency by removing four man years of overhead effort from the annual portfolio cycle
- Conduct consistent project evaluations, including comparison of different types of projects for funding decisions
- Weed out underperforming projects quickly
- Facilitate cross-regional projects

# Access the full Best Practice Guidebook

For the full version of the guidebook, please [click here](#).  
The Guidebook includes:

- Full content and guidance
- Key Lessons Learned
- Tools and Resources Section

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GROWTH TEAM MEMBERSHIP™

1

Best Practice Guidebook



## Innovation Portfolio Management: Balancing Value and Risk



### Challenge

Beta seeks to generate better returns from its product portfolio (both existing products and those still in development). However, the company struggles to evaluate and compare the value and risk of all projects, which hampers funding and decision-making.



### Solution

Beta implements a six-step portfolio management process to focus on the most valuable opportunities.



### Solution Components

1

Screen  
Project »

2

Evaluate  
Project »

3

Calibrate  
Information »

4

Balance the  
Portfolio »

5

Adjust the  
Portfolio  
Strategy »

6

Track  
Progress »



### Beta's Key Lessons Learned

- There is no perfect portfolio management process. Instead focus on agility and the business impact of your portfolio. Then iterate at each portfolio cycle, always improving and increasing project and portfolio value.
- Successfully combining portfolio and project management requires the right balance of people, process, and systems. Over- or under-resourcing any of these areas may undermine the success of the other two. Too much attention to systems can lead to excessive documentation, and a disproportionate focus on processes can result in automating obsolete approaches. Finally, too much attention on people can lead to an ad hoc system and slow down the process.

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